General Plan

County of San Bernardino

**SAN BERNARDINO COUNTY**
**ECONOMIC DEVELOPMENT PRESENTATION**

# General Plan Advisory Committee

## Economic Development White Paper

April 21, 2004

**Purpose**

The purpose of this paper is to report progress made to date regarding the preparation of the Economic Development Technical Background Report of the County of San Bernardino General Plan, to stimulate a GPAC discussion of the guiding principles and approach to be used in developing the General Plan's Economic Development Element, and obtain GPAC input regarding the topics and issues of concern to the GPAC to be addressed in the Element.

**Progress to Date**

The Economic Development team ---- comprised of Stanley R. Hoffman Associates and John Husing of Economics and Politics, Inc. as subconsultants to URS Corporation --- has completed a number of tasks thus far in the preparation of the Technical Background Report for the Economic Development Element. Some of these tasks are summarized as follows:

- Attended a project kick-off meeting and follow up meeting with County staff to introduce staff to the methodology for preparing the background report and the Element, discuss staff 's expectations for the background report and the Element, and presented the general approach to be taken in the preparation of the Element.
- Attended several County area tours with staff to gain first hand knowledge of County issues.
- Attended several community meetings to gain knowledge of issues from resident's perspective.
- Reviewed Hogle-Ireland's Phase I report of the current County General Plan and recommendation for the preparation of a separate Economic Development Element.
- Currently preparing preliminary draft Economic Development Element outline internal review and use by project team.

**Analysis Conducted to Date**

For the Economic Background Report for San Bernardino County's General Plan, the County is divided into six economic zones for purposes of analysis. Three of these areas (Victor Valley-Barstow, East Valley and West End) are examples of the three-stage process through which a Southern California area goes when it becomes part of the broader region's urban core. The following describes the three stages:

- **<u>Stage #1</u>** is characterized by rapid affordable housing development on a zone's broad expanse of undeveloped residential land, the creation of population serving jobs in fields like retailing and education, and a very low ratio of wage and salary jobs to occupied dwellings (job-housing). This is today's Victor Valley-Barstow area where population growth has been over 3.5% since 2000. Retailing, education, other services and health have been four of its five fastest growing sectors, and the jobs-housing ratio is just 0.65 in 2002 (1.24 is neutral) indicating very heaving commuting. This situation is unlikely to be substantially changed in the near term as more and more homes are built, and the Stage #2 period of blue-collar job growth is just starting.[1]

Looking ahead, from 2000-2010 the Victor Valley-Barstow area's population should increase from 288,153 to 380,734, up 92,581or a rapid annual average of 2.83%. In this period, its job base will increase from 60,791 to 127,117, up 66,326 or a very fast average annual rate of 7.66%. After 2010, as the East Valley starts running out of residential and industrial land, the high desert's growth will continue to be strong. From 2010-2030, the population will reach 578,434, up 197,700 with the average annual rate increasing to 3.00%. The job base will nearly double to 232,812, up 105,695 with a strong average annual growth rate of 3.07%. From 2000-2010, households will grow from 95,839 to 123,869, up 28,030 with persons per household going from 3.01 to 3.07. From 2010-2020, the number will increase to 186,715 with density rising to 3.10. The jobs-housing ratio will increase from 0.63 (2000) to 1.03 (2010) to 1.25 (2030):

- The zone's main job drivers for the next several years will be its population-based sectors as it adds 92,581 people from 2000-2010. This will mean continued growth in retailing, consumer services, health care, professional services, finance and local education. Once the California budget crisis is solved, local and state governmental agencies including prisons will be an important job supplier. Population based sectors will be further stimulated from 2010-2030 when the area adds another 197,700 people or 98,850 per decade.
- Among blue-collar sectors. Construction will strengthen as workers build infrastructure projects, tilt-up industrial buildings, and more and more housing tracts. Distribution employment will accelerate as the west-end builds out and the Victor Valley competes with the East Valley for large facilities. A key to this sector will be overcoming the perception that the market is "far away". Ultimately, it will be the only place left for these large facilities. Manufacturing should be a major job generator for the area. However, job growth will be difficult due to California's hostile business climate including the workers compensation costs, energy costs, the 8-hour day for overtime pay, mandatory health care and mandatory family leave. This will be the area of greatest jeopardy for the zone.
- Eventually, corporate back office operations will be drawn to the area due to its competitive labor costs and low space costs. This will be in the outlying years due to competition from the urban valleys. There will be few job gains in professional firms, technology companies and corporate headquarters as these firms will first go to the urban valleys.
- For the area's schools, a major challenge will be the Victor Valley-Barstow area's modestly educated work force. Their skills sets will become increasingly obsolete as the economy moves from a blue collar manufacturing and distribution economy to one based more on service sector jobs requiring verbal, mathematical and information based skills.

➢ **Stage #2** occurs when housing and population growth continue and are joined by large numbers of industrial firms that begin migrating into an area to take advantage of its large swaths of undeveloped industrial land and the fact that local workers will accept jobs for less to avoid commuting. This is today's East Valley (Fontana to Yucaipa). From 2000-2003, there have been 26 facilities of 250,000 to 1,000,000 square feet announced in the zone. Its population base is providing the large absolute numbers of new people in the County. The area's jobs/housing ratio of 1.04 (2002) indicates that it is still a commuter area.

In the near term, the East Valley's residential and blue-collar sectors will strengthen now that west-end is short of undeveloped land. However, many of its best job sites must be redeveloped since as recently as 1982 they hosted facilities like Kaiser Steel and Norton Air Force Base when the area was the County's job center (1.26 jobs-housing ratio). The former air force base will increasingly be a regional strength as is BNSF's intermodal rail yard. Meanwhile, a significant amount of population growth will be in single-family rentals in the zone's aging urban core. From 2000-2010, the East Valley's population will increase from 739,402 to 872,274, up 132,872 or an annual average of 1.67%. In this period, its job base will go from 223,177 to 315,542, up 92,365 or an average annual of 3.52%. After 2010, the East Valley will also be running out of residential and industrial land. Its population and blue-collar growth will trail off, but its office

[1] NOTE: The zone's distribution sectors would be enormously boosted if either BNSF or UPSP railroad puts an intermodal rail or an "inland port" facility in it.

centers should do well. From 2010-2030, the population will reach 1,066,970, up 194,967 with the average annual rate slowing to 1.13%. The job base will reach 468,771, up 153,228 with an average annual rate down to 2.00%. From 2000-2010, households will grow from 221,651 to 259,756, up 38,105, with persons per household increasing from 3.34 to 3.36. From 2010-2020, the number will increase to 319,709, up 59,963, with density falling to 3.34. The jobs-housing ratio will increase from 1.01 (2000) to 1.21 (2010) to 1.47 (2030):

- The zone's main employment drivers will be its population-based sectors as it adds roughly 327,568 people from 2000-2030. This will affect retailing, consumer services, professional services, finance and local education. Once the California budget crisis is solved, local and state governmental agencies including schools and colleges will be an important job supplier. Health care will also be a major growth sector because of its population growth and the Arrowhead Regional Medical Center, Loma Linda University Medical Center and the Jerry Pettis VA Hospital.
- Among blue-collar sectors, distribution employment will accelerate as the west-end builds out and projects move east. Construction will strengthen as workers build infrastructure projects, tilt-up industrial and office buildings, and housing tracts. Employment in Indian Casinos will increase as they grow in size. Manufacturing should strengthen, however, job growth will be difficult due to California's hostile business climate described earlier. This will also be the greatest jeopardy for this zone's long-term job growth.
- Corporate back office operations will continue to grow in the zone as the finance, insurance, call center, and construction firms gain an increasing appreciation for the area's lower costs. Over time, there will be increasing job gains in professional firms, technology companies and corporate headquarters as firms stay and expand in the East Valley. Eventually, coastal companies will migrate to the area's office complexes to take advantage of its lower costs.
- As with the high desert, a challenge for the zone's schools will be the poor educations of many of its workers whose skills will become increasingly obsolete as its economy goes from a blue collar to a service and information economy requiring verbal, mathematical and computer skills.

➢ **Stage #3** takes place when an area starts seeing large numbers of well-educated and/or successful technicians, professionals, executives and entrepreneurs migrate to its growing base of upscale homes. This occurs because the urban core's residential markets are saturated and prices rise to extreme levels to chase away excess buyers. The skill base brought by these workers makes the area competitive for professional firms, tech companies and corporate back office and headquarters operations. This is today's West-end (west of I-15). The median existing home price is over $300,000; the new home price exceeds $375,000 with tract homes as high as $1.5 million being offered. The skill profile is approaching that of Southern California's coastal counties. The area's jobs/housing ratio is 1.40 (2002) indicating that on a net basis more workers commute to it than leave. This position will strengthen in the near term, as it remains San Bernardino County's job growth center.

Looking ahead, a lot of the area's job growth energy will shift to the East Valley, as lack of land will eventually make it more difficult for the West-end to grow. The key to the area's future will be the speed that office firms, unrelated to its population growth, understand and react positively to its competitive advantages for them. Ultimately, the zone could well resemble the Costa Mesa area of Orange County near John Wayne Airport. Statistically, the west-end's population should expand from 537,704 in 2000 to 654,792 in 2010, up 115,088 or an annual average of 1.95%. From 2010-2030, it will reach 789,170, up 134,378 with the average annual rate slowing to 1.04%. The job base will increase from 217,447 in 2000 to 319,672 in 2010, up 102,225 or an average annual rate of 3.93%. From 2010-2030, it will reach 420,716, up 101,044 with an average rate at 1.38%. From 2000-2010, households will grow from 159,801 to 190,589, up 30,788 with persons per household going from 3.38 to 3.44. From 2010-2020, the number will go to 240,032, up 49,443, with density falling to 3.29. The jobs/housing ratio will go from 1.36 (2000) to 1.68 (2010) to 1.75 (2030):

- The area's population based sectors will continue expanding with its housing stock and income levels, adding jobs in retailing, consumer services, professional services, health care, finance, education and local government.

- Among blue-collar sectors, distribution will continue to be strong for the next 5-7 years as the west-end's industrial base builds out. After that, it will flatten due to lack of space. Construction will remain a strong sector as workers build infrastructure projects, tilt-up industrial and office buildings, and higher-end homes. Building in the west-end's dairy areas will provide a boost to this sector in the five to fifteen year time frame. Manufacturing job growth will be difficult due to California's hostile business climate cited earlier. Airport related job growth will increase dramatically starting about 2010 as Ontario International Airport becomes a major alternative to LAX for both air passenger and air cargo. The dairy industry will rapidly disappear.
- Corporate back office operations will continue to grow as the finance, insurance, call center, and construction firms increasingly understand the zone's lower costs. Job gains will expand among professional, technology and corporate headquarter operations as firms stay and expand or migrate to the area as it moves deeper into Stage #3 of its growth cycle. This will occur because the zone's skill base is expanding and its other costs are lower than the coastal counties. The lack of knowledge about the zone's growing competitive advantages for these types of operations will be the major challenge for the economic development agencies for several years.
- As with the two zones above, a major challenge for the schools will be the poor educations of many of today's workers whose skills will become increasingly obsolete as its economy goes from a blue collar to a service and information economy.

**Projections of Economic Zones**
Three of San Bernardino County's economic zones are special cases with recent economic development trends and opportunities differing from the rest of the County: the Mountains; Morongo Basin; and the Outlying Desert Area.

➢ **Mountains**: The Mountain region is characterized by difficult access routes, offset by their forest and lake environment. Residents include many commuters to the growing urban zones, as well as large numbers of retirees plus people who work in the mountains full time. The last group serves the tourists and part-timers that come to the area for its environment or for such recreation activities as skiing, fishing, boating and hiking. As much of the money flowing into the Mountain area economy comes from the discretionary incomes of commuters and visitors, its ebbs and flows tend to exaggerate the fluctuations of Southern California's urban core.

Looking ahead, the Mountain region faces the greatest potential stress of San Bernardino County's six zones. Unfortunately, whether it has been global warming, the weather cycle or poor forest and water management, its major assets are under stress. The problems must be solved or the area will be an ecological disaster. Assuming these difficulties can be at least controlled, from 2000-2010 the Mountain population will go from 55,429 to 67,372, up 11,943 or 1.97% mostly due to the conversion of part time homes to full time uses. In this period, its small job base will go from 12,273 to 21,595, up 9,322 or an average annual rate of 5.81%. After 2010, lack of sites will slow growth in the area. From 2010-2030, its population will reach 69,715, up 2,343 or an average annual rate of only 0.19%. The job base will remain roughly constant, up 391 or an annual growth rate of 0.09%. From 2000-2010, households will grow from 21,540 to 22,574, up 1,034 with persons per household going from 2.57 to 2.98. From 2010-2020, the number will go to 26,957, up 4,383, with density at 2.59:

- The area's ski resorts will continue to flourish due to their proximity to Southern California's huge growing population base, as will its lake areas. However, the ability to smooth out the seasonality of the economy would be helped by finding off-season uses of tourist facilities.
- The number of workers living in the area and commuting to jobs in the county's urban valleys will increase along with the size of the West-end and East Valley economies. They will put more money into the mountain economy but greater stress on its road system. The number of retirees living in the mountains will grow as more and more of Southern California's baby boomers choose to retire. The number of home based entrepreneurs living in the Mountains and working through the internet will likely increase.
- The overall result of these changes will likely be more full time and less part time use of the area's housing stock and a higher resident population than forecasted by local planners. As each of these groups will bring additional dollars to the Mountains, the local economy that

depends upon their funds should do well. They will also help with the seasonality of the economy.

- **Morongo Basin:** The Morongo Basin's economic base has historically come from three outside sources. First and most important has been local spending from the U.S. Marine Corps Base at Twentynine Palms and its personnel. Second have been the area's numerous retirees, many also from the military, who have come for its desert environment. Third, in the mid-1990's, the creation of Joshua Tree National Park, whose main entrance is the basin, brought tourist expenditures from its visitors. Of late, these sources have begun to be supplemented by a new force. This is the increasing number of workers who are migrating to the area for its affordable housing and commuting to jobs in the rapidly growing retirement and tourist sectors of the nearby Coachella Valley.

  Looking ahead, commuters will likely represent an increasingly important portion of the Morongo Basin's economy and drive its population growth. From 2000-2010, the population will go from 66,648 to 75,904, up 9,436 or 1.34%. In this period, the small job base will go from 10,890 to 13,709, up 2,819 or an average annual rate of 2.33%. After 2010, lack of sites elsewhere will increase the area's growth. From 2010-2030, its population will reach 91,418, up 15,513 or an increased average annual rate of 2.18%. The job base will grow to 13,060, up 7,206 or an annual growth rate of 2.13%. From 2000-2010, households will grow from 23,040 to 26,632, up 3,592 with persons per household going from 3.02 to 2.98. From 2010-2020, the number will go to 32,367, up 5,735, with density falling to 2.94:

  - The area's economic base will continue to be dependent upon spending associated with the U.S.M.C. This facility's unique mission means it will remain an active base for the foreseeable future, probably not a source of growth. In good times, it will be a stable source of funding for the economic base. In wartime, it can introduce instability as troops leave and families depart.
  - Tourist visits to Joshua Tree National Park will increase given its proximity to Southern California's huge and growing population. As the entrance way is in the Morongo Basin, this will be a small but growing part of the area's economic base.
  - Given the climate and clean environment of the Morongo Basin and the aging of the baby boomer population, spending by retirees should be an increasing element in its economic base. In addition, 15.3% of the residents of the Morongo Basin are on public assistance and Medi-Cal. This will likely be a growing group due to the area's extraordinarily low cost of housing. Their checks add to the area's economic base as the funds are largely from the outside world.
  - As stated, the major shift in this zone's economy will come from its ties to the nearby Coachella Valley. That area's economy is accelerating as a tourist and retirement area, as well as a home for increasing numbers of year-around residents. Eventually, it will also be caught up in the outward migration of housing development from Southern California's urban core and become a Stage #1 source of commuters migrating to jobs in the urban valleys of San Bernardino and Riverside Counties. A growing number of the workers who will build homes and facilities in the Coachella Valley, as well as work in its businesses, will be commuters from the Morongo Basin.

- **Outlying Desert Area**: The County's huge Outlying Desert area is not a single unit, but a series of isolated economies based upon single sources of outside money. These include the U.S. Army's Fort Irwin National Training Center; IMC Global's North American Chemical Company's potassium carbonate mine near Trona; and the truck, interstate travelers and Colorado River tourist services at Needles (threatened by gaming operations at nearby Laughlin Nevada). Similar, though much smaller roles are played by truck and interstate traveler services at Baker; the Big River residential and recreation area on the Colorado River Indian Reservation; farming and proposed water storage and production at Cadiz; MolyCorp's mining at Mountain Pass; and the Viceroy Gold and MK Gold's Castle Mountain Mine in the Castle Mountains. These are essentially static economies unlikely to change significantly in the near or long term. The area will thus have little growth unless a new node such as a spaceport or prison is built in it. As a result, from 2000-2010, the population will go from 20,278 to 21,571, up 1,293 or 0.62%. In this period, the small job base will go from 6,081 to 6,402, up 384 or an average rate of 2.33%. From 2010-2030, the population will reach 22,448, up 877 or an annual rate of 0.62%. The job base will reach 7,130, up 728, or annual growth of 0.54%. From 2000-2010, households will go from 6,723 to 7,233, up 510, with persons per dwelling falling from 3.02 to 2.98. From 2010-2020, the number will go to 7,630, up 397, with density falling to 2.94.